



FY 2018 - FY 2023 Capital Improvement Program

Adopted May 9, 2017

Prepared by the Department of Community
Development

Town of Herndon

FY 2018 – FY 2023 Capital Improvement Program

**Adopted May 9, 2017 by Resolution 17-G-45 of the
Town Council of the Town of Herndon, Virginia**

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Special thanks to former Town Manager Arthur A. Anselene and former Director of Finance Mary K. Tuohy who guided the initial development of this program.

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MANAGEMENT SUMMARY

The annual CIP process provides an opportunity to consider the needs and priorities for the public facilities and utilities of the Town of Herndon. The CIP serves as both a budget document for fiscal year 2018 and as a tool for short term planning over the succeeding five years. The FY 2018 - FY 2023 Capital Improvement Program (CIP) provides a strategic funding plan that reflects the town's proposed FY 2018 Operating Goals and the Town Council's adopted 2035 Vision Strategic Plan.

The FY 2018 – FY 2023 CIP contains 50 capital projects for the six-year cycle. The program includes 38 general fund projects and 12 enterprise fund projects. Many of these projects and programs are ongoing from previous capital improvement programs. Projects are generally revised each year as funding, planning, design and other factors affect cost estimates.

Several funding sources are identified to support specific projects. In addition to General Fund monies, the CIP plans for the use of capital grants, capital lease/purchase, general fund unassigned fund balance, general obligation bond proceeds and other funding sources. The sale of general obligation bonds pledges the full faith and credit of the town for their repayment, which is typically over a 15 to 20-year period.

The proposed program makes use of \$31,603,000 in grant funding from several sources in support of 19 of the general fund CIP projects. The grant sources include county, state and federal grants. The East Elden Street project (CIP #12) is not included in any of the totals, as the project is to be implemented by the Virginia Department of Transportation with a cost of well over \$43 million. Major debt financing includes general obligation bond funding for general fund projects such as the Community Center Phase V in FY 2023 and the Runnymede Park Nature Center in FY 2021.

Enterprise funds are independent of the general fund and capital projects are supported by the revenues generated by the particular fund. This includes debt service on capital items repaid by fund revenues. Additional debt financing supported by the Water and Sewer Fund revenues includes a major water capacity purchase as well as a sewer treatment capacity purchase, both slated for FY 2019. The capacity purchases are reflected as annual debt service amounts, in anticipation of financing agreements with Fairfax Water, a separate authority and with either Fairfax County or Loudoun County with respect to sewer capacity. The other Water and Sewer Fund projects which are not as large rely mainly on fund revenues and availability fees.

A breakdown of all CIP funding by source is provided each year with the Town Council staff report. This document covers the specific funding amounts for each of a dozen types of funding sources, covering dollar amounts for each project and each year of the CIP.

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I. OVERVIEW

PURPOSE

The purpose of the Capital Improvement Program (CIP) is to provide a practical plan for the acquisition, development, enhancement or replacement of public facilities to serve the town citizenry. The CIP is a realistic, six-year program for implementing the capital priorities of the town within identified funding constraints. The programming of capital improvements aids in the efficient and effective provision of public facilities and services.

As opposed to operations and maintenance, capital projects require major expenditures for such items as public land, structures, utility systems, streets, and major equipment. Projects or programs requiring a total commitment of less than \$50,000 are not normally included in the town's CIP.

TOWN OF HERNDON OPERATING GOALS

The CIP is a critical component of the town's goal setting, budgeting, evaluating, and reporting system, as identified in the adopted budget. After final adoption by the Town Council, the CIP serves as a budget document and funding authorization for the first fiscal year of the program as well as a planning tool for the remaining five years of the six-year schedule. The CIP is updated annually and is considered a component of the town's comprehensive plan.

The town operates on a July 1 through June 30 fiscal year. The term "FY 2018," for example, is used to refer to the July 1, 2017 through June 30, 2018 fiscal year. The CIP is developed concurrently with the programs and activities that comprise the annual operating budget. The Financial Analysis component of the CIP is finalized after the operating budget amounts are in final recommended form. This section includes historic and projected trends for revenues and expenditures, culminating with the identification of projected Capital Financing Potential.

FUNDING OPTIONS

A variety of funding options are available to the Town of Herndon for its capital project needs: General Fund revenues; County, State, and Federal grants and payments; developer contributions; and cash proffers from an approved rezoning application. Capital leases can also be used to purchase equipment, and Herndon typically funds information technology hardware and general service administration vehicles through this financing method. The CIP contains many projects that have a transportation component, including several major street improvement projects supported primarily by Virginia Department of Transportation (VDOT) funding. VDOT capital funding includes allocations from the VDOT Urban Division as well as federal and state monies allocated through the Northern Virginia Transportation Authority.

Funds for capital construction may also be generated by the sale of general obligation bonds that pledge the full faith and credit of the town for their repayment. These bonds are typically repaid over a 15 to 20 year period.

Other sources of funding include revenue grants generated by enterprise activities or revenue bonds that pledge the revenue generating potential of a facility or utility.

The Town of Herndon currently maintains four independent enterprise funds that provide operations, maintenance and enhancement of certain public facilities and utilities based upon revenue generating user fees.

The Golf Course Fund is supported by revenue from the award-winning Herndon Centennial Golf Course. The Water and Sewer Fund supports the water and sanitary sewer systems through user fees and connection fees generated by business and residential customers. The Downtown Parking Fund supports the operation and development of the Herndon Downtown Public Shared Parking Program. Lastly, the Cemetery Fund supports the improvements and operation of the Chestnut Grove Cemetery, which is owned by the town.

PROCESS

Within the framework of the 2035 Vision Strategic Plan, the fiscal year Operating Goals, the 2030 Comprehensive Plan, and other adopted town policy documents, the annual development of the CIP is a process characterized by extensive community input. The operating departments constantly review needs and requests for services and facilities. Early financing indicators and capital project issues are typically reviewed with the Planning Commission and Town Council during the latter part of the calendar year.

In December, the CIP process begins with the submittal of project requests from the various departments. During the month of December, town staff evaluates the submitted projects, and a draft CIP is developed and provided to the Planning Commission for review and consideration at its public hearings in January and February. The Planning Commission makes its official recommendation on the CIP, which is forwarded to the Town Manager. In April, the Town Manager proposes a recommended Capital Improvement Program to the Town Council. Then the Town Council holds two public hearings for input and then action on the upcoming fiscal year operating budget, including the first year of the CIP. In May or June, a public hearing is held on the remainder of the CIP for input and then final action by the Town Council.

Capital Improvement Program Process:

Continuous	Input on CIP projects.
November	Staff performs preliminary financial analyses and reviews budget goals and objectives with Town Council.
January	The Planning Commission holds a public hearing to obtain public input prior to consideration of a draft document. Staff presents the status of the capital improvement projects to the Planning Commission and Town Council at a joint work session. Staff also provides a staff report with a draft CIP document for the January work session.
February	Town Council holds a public hearing for citizen input on the fiscal year budget and CIP; the Planning Commission holds a public hearing on the Draft CIP. The Planning Commission makes a recommendation to the Town Manager on the CIP, as Virginia Code provides.

March	If needed, the Planning Commission holds a third public hearing on the CIP and makes a recommendation on the program, which is forwarded to the Town Manager. The Town Manager's Operating Budget and CIP are released at the end of the month or the very beginning of April.
April	Budget and CIP Summary is distributed to town residents. Town Council holds public hearings and takes action on the budget and the first year of the CIP.
May	Town Council holds a public hearing and takes action on the remaining five years of the CIP.

POLICY

A number of important policies guide the formulation of the CIP and the programming of resources to support the scheduled projects:

- To assist with financial planning and decision making, the town will annually prepare a six-year projection of General Fund revenues and expenditures, Unassigned Fund Balance, and Capital Financing Potential;
- The CIP project totals conform closely to the constraints identified in the annual projection of total revenues, recurring revenues, total expenditures, recurring expenditures, fund balance and available funds for capital projects;
- Fiscal year funding amounts designate monies for a particular project phase. The funding amounts should be encumbered by the end of the fiscal year in which they appear;
- The Town Council will review the status of capital improvement projects six months after adoption of the CIP to determine what adjustments, if any, are required in project scheduling and funding;
- **TARGET:** A minimum of 10 percent of General Fund projects should be funded on a cash basis. The town is to fund a significant portion of capital improvements with current revenues;
- **TARGET:** Maintain a minimum of 10 percent of the projected annual operating expenditures for the upcoming fiscal year in Unassigned Fund Balance. The town is to maintain General Fund equity (Unassigned Fund Balance) sufficient to provide working capital to address contingencies. The unassigned fund balance projected at June 30, 2018 is \$7,110,025. The town is projected to maintain a minimum unassigned fund balance of \$4,048,000 at the beginning of FY 2024;
- **TARGET:** General Fund Debt Service as a Percentage of General Fund expenditures should not exceed 12 percent. For FY 2018, the General Fund debt service will be 6.6 percent of the proposed General Fund operating and debt service expenditures;

- TARGET: Total Debt as a Percentage of Assessed Value should not exceed 3.0 percent. At July 1, 2017, the estimated percentage will be 0.24 percent. The Code of Virginia limits the town's debt to 10.0 percent of assessed value;
- TARGET: Debt per Capita should not exceed \$1,000 at base year FY 1994, plus an additional 1 percent adjustment for each subsequent year. This formula was established in FY 2005 to adjust for inflation and income growth over time. For FY 2018, the maximum debt-per-capita is \$1,270 and the estimated debt per capita is \$499.
- Operations of the town's Enterprise Funds—Golf Course, Water and Sewer, Downtown Parking and Cemetery—are intended to be financed or recovered primarily through user charges;
- Enterprise Fund revenues are to support construction costs or debt service for capital facilities for the respective operations whenever possible. General Fund transfers may be used to support the development of Enterprise Fund capital facilities;
- To assist with budgeting and planning efforts, the CIP may include purchases that typically may not be considered capital investments for larger jurisdictions. These purchases may include vehicles and major equipment and information systems and telecommunications infrastructure procurements.

BENEFITS

Capital programming, through the Town of Herndon Capital Improvement Program, benefits the town by accomplishing the following:

- Establishes an annual examination and prioritization of town needs;
- Facilitates capital expenditure and revenue estimates and helps avoid emergency financing methods;
- Provides a basis for formulating bond programs and other revenue producing measures;
- Provides focus on community goals and objectives, including those identified in the 2030 Vision Statement;
- Assists with the implementation of the town's comprehensive plan and related policies;
- Assists with the prioritization and implementation of neighborhood-based programs and projects;
- Facilitates better coordination between town departments in planning and implementing capital projects;
- Enables proper project management and design, including appropriate project financing and construction scheduling.

CLASSIFICATION

The CIP is divided into a number of project classes, and projects are coded using the convention outlined below:

Classification Number and Name

1. Land Acquisition
2. Traffic Control
3. Streets
4. Bridges
5. Storm Drainage
6. Sanitary Sewer
7. Redevelopment
8. Refuse Disposal
9. Buildings
10. Grounds
11. Parks and Playgrounds
12. Water System
13. Downtown Development
14. Consultant Services
15. Vehicles and Large Equipment
16. Information Technology

Agency Codes

BD = Buildings
CD = Community Development
FI = Finance Department
GC = Golf Course
GD = Grounds (Department of Public Works [DPW])
IT = Information Technology
PO = Police Department
PR = Parks and Recreation
SM = Storm Sewer (DPW)
SS = Sanitary Sewer (DPW)
ST = Streets (DPW)
TS = Town Shop (DPW)
WS = Water System (DPW)

Project Number Components:

[Example] 03-ST-96-001

03 – Project Classification

ST – Agency Code (department responsible)

96 – Fiscal Year included in CIP

01 – Department Project Numbering

II. FINANCIAL ANALYSIS

As an aid to comprehensive financial planning consistent with the development and analysis of the proposed Capital Improvement Program, the following tables examine the past and estimated future expenditures and revenues of the Town of Herndon. In particular, the present and future ability of the town to pay for the construction and maintenance of proposed public improvements is determined by establishing the present availability of funds, by researching the probable future trends of municipal revenues and expenditures, by appraising all factors related to the administration and operation of the Capital Improvement Program, and by determining what limitations are imposed upon the town, providing as much information as possible to ensure prudent fiscal responsibility.